

Property Tax Advisory

Property Tax Advisories are interpretive statements authorized by RCW 34.05.230.

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APPRAISAL OF BED AND BREAKFAST ESTABLISHMENTS

This Property Tax Advisory suggests the appropriate approaches for valuing Bed and Breakfast establishments in counties that do not have sufficient sales of these properties to use a standard market approach.

Assessors will encounter three broad classes of Bed and Breakfast establishments: (1) those which are primarily businesses; (2) those which are primarily residences; and (3) those which proportionately encompass both.

WAC 458-07-030 (3) states in part:

True and fair value -- Highest and best use. Unless specifically provided otherwise by statute, all property shall be valued on the basis of its highest and best use for assessment purposes. Highest and best use is the most profitable, likely use to which a property can be put. It is the use which will yield the highest return on the owner's investment. Any reasonable use to which the property may be put may be taken into consideration and if it is peculiarly adapted to some particular use, that fact may be taken into consideration. Uses that are within the realm of possibility, but not reasonably probable of occurrence, shall not be considered in valuing property at its highest and best use.

‘Highest and best use’ is defined in The Appraisal of Real Estate, twelfth edition, page 305, as follows:

"The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value."

Additionally, ‘multiple use’ is defined in The Appraisal of Real Estate, twelfth edition, page 325, as follows:

“A combination of compatible land uses in an area or in a single building.”

It continues with the following statements, in part:

“Highest and best use often includes more than one use for a parcel of land or an improved property.... If the highest and best use of a property is for more than one use on the same parcel or in the same building, the appraiser must estimate the contributory value of each use.... In multiple-use assignments, the sum of the values of the separate uses may be less than, equal to, or greater than the value of the total property.”

Providing the test of highest and best use does not support a higher value, the Department's position is as follows:

- (1) If the taxpayer is renting one or two rooms on a seasonal basis, the property should be valued as a residence using comparable sales of residential properties.
- (2) If the property is primarily commercial, an income capitalization approach should be used to determine the fair market value of the property.

The rule of "highest and best use" should be applied to determine which valuation approach to use **if the property is multiple use**, i.e., business and residential. If the income approach is used, income must be assigned for that portion of the property occupied by the owner/manager.

In all cases, personal property in commercial use should be valued. When an appropriate overall capitalization rate is applied to the net operating income, the value conclusion will include the market value of the personal property. It is then necessary to deduct the market value of the personal property to arrive at the value of the real property. The assessed value of the personal property may be used as a guide when determining the market value of the personal property. In addition, the market value of any exemption such as Head of Family must also be deducted to determine the residual real property value.
